

**SOUTHERN WATER CAPITAL LIMITED  
(formerly Hackremco (No 2023) Limited)**

**DIRECTORS' REPORT  
AND ACCOUNTS FOR THE PERIOD ENDED  
31 MARCH 2004  
Registered Number 04608528**



**SOUTHERN WATER CAPITAL LIMITED**  
**(formerly Hackremco (No 2023) Limited)**

**Directors' Report and Accounts for the period ended**

**31 March 2004**

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SOUTHERN WATER CAPITAL LIMITED  
(FORMERLY HACKREMCO (No 2023) LIMITED)

## **REPORT OF THE DIRECTORS**

The directors present their report and the audited accounts for the period ended 31 March 2004.

## **INCORPORATION**

Southern Water Capital Limited (the company) was incorporated in England and Wales on 4 December 2002.

## **GROUP**

The company acquired 80.1% of Southern Water Investments Limited on the 7 May 2003, with the remaining 19.9% held by Veolia Water UK plc. The major subsidiaries included within the Group are shown in Note 28. The consolidated results disclosed cover the period from 7 May 2003 until 31 March 2004.

## **RESULTS AND DIVIDENDS**

The loss after taxation for the financial period for the Group amounted to £5.1 million. The directors do not recommend a final dividend. The retained loss for the period of £5.1 million for the Group has been transferred to reserves.

## **PRINCIPAL ACTIVITIES AND REVIEW OF THE BUSINESS**

The principal activities of the Group are the provision of water supply and wastewater services in the south-east of England.

This is the first period that the Group has operated and the results shown are for the period from the 7 May 2003 until 31 March 2004. The trading results largely reflect the performance of the major trading subsidiary Southern Water Services Limited.

The Group undertook a major refinancing project, which was completed on 23 July 2003.

The Company's principal activity is that of a holding company for Southern Water Investments Limited and its subsidiaries.

## **FUTURE DEVELOPMENTS**

The Directors anticipate that the Company will continue to act as a holding company to the Southern Water group of companies.

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## **DIRECTORS AND THEIR INTERESTS**

The directors during the period were:-

R Cullinan (appointed 8 July 2003, resigned 7 September 2004)  
S Dance (appointed 15 December 2003)  
D Giffin (appointed 28 May 2003, resigned 14 October 2003)  
Hackwood Securities Limited (4 December 2002, resigned 3 February 2003)  
S Peckham (appointed 3 February 2003, resigned 28 May 2003)  
D Workman (appointed 7 September 2004)  
R Thian (appointed 7 September 2004)

No director or person connected to directors had an interest in shares or debentures of the company or any other body corporate in the group at both the beginning of the period (or date of appointment, if later) and the date of these financial statements.

## **DIRECTORS' RESPONSIBILITIES**

Company law requires the directors to prepare accounts for each financial period which give a true and fair view of the state of affairs of the Group as at the end of the financial period and of the profit or loss of the Group for that period. In preparing those accounts, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts.
- prepare the accounts on a going concern basis unless it is inappropriate to presume that the group will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group and enable them to ensure that the accounts comply with the Companies Act 1985. The directors are responsible for the maintenance and integrity of the website. Uncertainty regarding legal requirements is compounded as information published on the internet is accessible in many countries with different legal requirements relating to the preparation and dissemination of financial statements. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

## **EMPLOYEES**

The Group has developed its communications processes with its employees to ensure greater understanding of and involvement in the business. This has been achieved through the "Waterline" staff magazine, produced to complement "Southern Water News", and by staff briefings.

SOUTHERN WATER CAPITAL LIMITED  
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**EMPLOYEES (continued)**

The Southern Water Learning business is now firmly established with programmes for school leavers and the long-term unemployed to work alongside and learn from our employees. The Open Learning facilities at all the main company locations reinforce the commitment of the Group to providing learning opportunities.

The Group has set up a consultation process with local, functional and a company-wide forum, with representatives being voted onto the forum by their teams, irrespective of whether they are Trade Union representatives. The objective in setting up the new process is to ensure that all areas of the Group are adequately represented for consultation purposes.

***Equal opportunity***

The Group policy is to promote equality of opportunity in recruitment, employment continuity, training and career development. The policy is designed to ensure that equal opportunity in these areas extends as far as practicable to people with disabilities. The Group is a member of the Employers' Forum on Disability, which supports the efforts to meet the needs of the disabled for employment and access to the Group and its buildings.

***Health and safety***

Every employee receives a copy of the corporate policy statement on health and safety. There are regular meetings of employee representatives and managers to consider all aspects of health and safety, and there is a health and safety management review group which ensures that there is an adequate system for meeting the Group's responsibilities for health and safety to its staff, customers and members of the public.

The Group has its own internal occupational health service, including the provision of physiotherapy. These services are continuously being reviewed and developed to meet the changing needs of the business and our employees at work.

**CREDITOR PAYMENT POLICY AND PRACTICE**

The Group's current policy and practice concerning the payment of its trade creditors is to follow the Better Payment Practice Code to which it is a signatory. Copies of the Code may be obtained from the Department of Trade and Industry or from the website [www.payontime.co.uk](http://www.payontime.co.uk).

The Group's policy and practice is to settle terms of payment when agreeing the terms of the transaction, to include the terms in contracts and to pay in accordance with its contractual and legal obligations. The Group's creditor days at 31 March 2004 were 44 days. The Company has no creditors at 31 March 2004.

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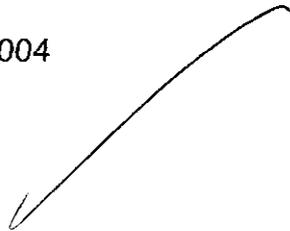
**AUDITORS**

The auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office and a resolution that they be reappointed will be proposed at the annual general meeting.

Approved by the Board of Directors and signed on behalf of the Board.



D Workman  
Director  
6 October 2004



SOUTHERN WATER CAPITAL LIMITED  
(FORMERLY HACKREMCO (NO2023) LIMITED)

**CONSOLIDATED PROFIT AND LOSS ACCOUNT**

for the period ended 31 March 2004

	Notes	2004 £m
<b>Turnover</b>	3,4	<b>408.6</b>
Cost of sales	4	<b>(226.7)</b>
<b>Gross profit</b>		<u><b>181.9</b></u>
Administrative expenses	4	<b>(24.9)</b>
Other operating income	4	<b>1.6</b>
<b>Operating profit and profit on ordinary activities before interest and taxation</b>	5	<u><b>158.6</b></u>
Profit on disposal of fixed assets		<b>3.8</b>
Net interest and similar charges	8	<b>(159.2)</b>
<b>Profit on ordinary activities before taxation</b>		<u><b>3.2</b></u>
Tax on profit on ordinary activities	9	<b>(8.3)</b>
<b>Loss on ordinary activities after taxation</b>		<u><b>(5.1)</b></u>
Minority Interests		<b>(0.0)</b>
<b>Retained loss for the financial period</b>	21	<u><u><b>(5.1)</b></u></u>

The above results relate entirely to operations acquired during the period. The Group has no recognised gains and losses other than those included in the loss above and therefore no separate statement of total recognised gains and losses has been presented.

The parent company was dormant until its acquisition of the Southern Water Investment Group of companies, the acquired group.

There was no difference between the profit on ordinary activities before taxation and the retained loss for the financial period stated above, and their historical cost equivalent.

The Notes on pages 8 to 40 form part of these accounts.

SOUTHERN WATER CAPITAL LIMITED  
(FORMERLY HACKREMCO (NO2023) LIMITED)

**CONSOLIDATED BALANCE SHEET**

as at 31 March 2004

	Notes	Group 2004 £m	Company 2004 £m
<b>Fixed Assets</b>			
Tangible assets	10	2,992.6	-
Investments	11	7.0	40.1
		2,999.6	40.1
<b>Current assets</b>			
Stocks	13	1.4	-
Debtors: amounts falling due within one year	14	108.6	3.9
Cash at bank and in hand		99.0	0.1
		209.0	4.0
<b>Creditors: amounts falling due within one year</b>	15	<b>(195.3)</b>	<b>(0.1)</b>
<b>Net current assets</b>		<b>13.7</b>	<b>3.9</b>
<b>Total assets less current liabilities</b>		<b>3,013.3</b>	<b>44.0</b>
<b>Creditors: amounts falling due after one year</b>	16	<b>(2,614.0)</b>	-
<b>Provision for liabilities and charges</b>	17	<b>(312.8)</b>	-
<b>Grants and contributions</b>	19	<b>(42.5)</b>	-
<b>Net assets</b>		<b>44.0</b>	<b>44.0</b>
<b>Capital and reserves</b>			
Called up share capital	20	40.1	40.1
Profit and loss account	21	(5.1)	3.9
<b>Total shareholder's funds (including non-equity interests)</b>		<b>35.0</b>	<b>44.0</b>
<b>Equity minority interests</b>		<b>9.0</b>	-
<b>Capital employed</b>		<b>44.0</b>	<b>44.0</b>

The accounts on pages 5 to 40 were approved by the Board on 6 October 2004 and signed on its behalf by:

D Workman  
Director



SOUTHERN WATER CAPITAL LIMITED  
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**CONSOLIDATED CASH FLOW STATEMENT**

for the period ended 31 March 2004

	Notes	2004 £m
<b>Net cash inflow from operating activities</b>	22	<b>228.9</b>
<b>Returns on investments and servicing of finance</b>		
Issue costs of new loans		(53.7)
Interest paid		(153.1)
Interest received		5.9
<b>Net cash outflow from returns on investments and servicing of finance</b>		<b>(200.9)</b>
<b>Capital expenditure and financial investment</b>		
Purchase of tangible fixed assets		(203.1)
Sale of tangible fixed assets		4.1
Receipt of grants and contributions		7.5
<b>Net cash outflow for capital expenditure and financial investment</b>		<b>(191.5)</b>
<b>Acquisitions</b>		
Acquisition of Southern Water Investments Limited		(40.1)
Net cash acquired with subsidiary undertaking		341.8
		<b>301.7</b>
<b>Net cash inflow before financing</b>		<b>138.2</b>
<b>Financing</b>		
Premium arising on new loans		187.5
Payment of swap break costs		(187.8)
Redemption of preference shares		(370.0)
Repayment of short term loan		(2,074.7)
Issue of long term loans		2,103.2
Proceeds from preference share issue		260.0
Proceeds from share issue		40.1
<b>Net cash outflow from financing</b>		<b>(41.7)</b>
<b>Increase in net cash</b>		<b>96.5</b>
<b>Reconciliation to net debt</b>		
Net debt on incorporation		-
Acquisition of net debt at 7 May 2004		(2,123.4)
Increase in net cash		96.5
Movement in borrowings		(288.5)
Non-cash items		(179.0)
<b>Net debt at end of period</b>	22	<b>(2,494.4)</b>

All cash flows arise since acquisition with the exception of share capital issued of £40.1m

SOUTHERN WATER CAPITAL LIMITED  
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**NOTES TO THE CONSOLIDATED ACCOUNTS FOR THE PERIOD ENDED  
31 MARCH 2004**

**1 Accounting policies**

**Basis of accounting**

The accounts have been prepared under the historical cost convention and in accordance with applicable accounting standards and, subject to the treatment of infrastructure grants and contributions described below, with the requirements of the Companies Act 1985.

**Basis of consolidation**

The Group accounts include the accounts of the company and all of its subsidiary undertakings. The results of the subsidiaries acquired during the period are included in the Profit and Loss Account from the date of acquisition. Intra group sales and profits are eliminated fully on consolidation. Consolidated financial statements are prepared for the first time due to the Company's incorporation on the 4 December 2002 and the acquisition of a material trading subsidiary on 7 May 2003. The acquisition method of accounting has been used to consolidate the subsidiaries.

**Turnover**

Turnover represents the income receivable (excluding value added tax) in the ordinary course of the business for goods and services provided and, in respect of unbilled charges, includes an accrual for measured and unmeasured income.

Measured income arises from customers who have meters fitted at their premises. Therefore amounts billed are based on actual water consumption. Unmeasured income bills are based on the rateable value of properties. The income accrual is an estimation of the amount of mains water and wastewater charges unbilled at the year end. The accrual is estimated using a defined methodology based upon weighted average tariffs and historical billing and consumption information.

**Bad Debts**

The bad debt provision is calculated by applying recovery rates to an aged debt profile to ensure that the age of debt not covered by the provision is an accurate reflection of the recoverability of debt.

**Research and development**

Expenditure on research and development is charged to the profit and loss account as it is incurred.

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**NOTES TO THE CONSOLIDATED ACCOUNTS FOR THE PERIOD ENDED  
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**1 Accounting policies (continued)**

**Tangible fixed assets**

- i) Infrastructure assets (being mains and sewers, impounding and pumped raw water storage reservoirs, dams, sludge pipelines and sea outfalls) comprise a network of systems.

Expenditure on infrastructure assets relating to increases in capacity or enhancement of the network and on maintaining the operating capability of the network in accordance with defined standards of service, is treated as an addition to fixed assets and is stated at cost after deducting grants and contributions. Staff costs represent those costs directly related to the construction of a specific infrastructure asset and are capitalised as part of infrastructure assets on the basis of the amount of time spent by individuals on capital projects.

The depreciation charge for infrastructure assets is the estimated level of annualised expenditure required to maintain the operating capability of the network and is based on the asset management plan determined by the water industry regulator as part of the price regulation process. The asset management plan is developed from historical experience combined with a rolling programme of reviews of the condition of the infrastructure assets.

- ii) Other assets (including overground assets, plant and equipment) are stated at cost less accumulated depreciation. Other assets are depreciated on the *straight-line method over their estimated operating lives which are principally as follows:*

	<u>Years</u>
Buildings	10 - 60
Operational structures	15 - 80
Fixed plant	10 - 40
Vehicles, computers and mobile plant	3 - 10

Operational structures are assets used for wastewater and water treatment purposes. These include water tanks and similar assets.

- iii) Freehold land is not depreciated.

Assets in the course of construction are not depreciated until they are commissioned. Commissioning is deemed to occur when a new works is officially taken over from the contractor following completion of performance and take-over tests.

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**NOTES TO THE CONSOLIDATED ACCOUNTS FOR THE PERIOD ENDED  
31 MARCH 2004**

**1 Accounting policies (continued)**

**Grants and contributions**

Capital grants and customer contributions in respect of additions to non-infrastructure fixed assets are treated as deferred income and released to the profit and loss account over the estimated operational lives of the related assets in accordance with the provisions of the Companies Act.

Grants and capital contributions received relating to infrastructure assets have been deducted from the cost of fixed assets. This is not in accordance with Schedule 4 of the Companies Act 1985 which requires fixed assets to be stated at their purchase price or production cost. The Act does not permit the deduction of contributions, hence these would have been accounted for as deferred income.

This departure from the requirements of the Act is, in the opinion of the directors, necessary for the accounts to give a true and fair view because infrastructure assets do not have determinable finite lives. Accordingly related capital contributions would not be recognised in the profit and loss account. The effect of this treatment on tangible fixed assets is disclosed in note 10.

Revenue grants and contributions are credited to the profit and loss account in the year to which they relate.

**Leased assets**

Fixed assets leased to the Group under finance leases are capitalised and depreciated in line with the Group's depreciation policy. The interest element of finance lease repayments is charged to the profit and loss account in proportion to the balance of the capital repayments outstanding.

Rentals payable under operating leases are charged to profit and loss account as incurred.

**Stocks**

Stocks are valued at the lower of cost and net realisable value.

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**NOTES TO THE CONSOLIDATED ACCOUNTS FOR THE PERIOD ENDED  
31 MARCH 2004**

**1 Accounting policies (continued)**

**Taxation**

Deferred taxation is provided on all timing differences that have originated but not reversed by the balance sheet date, calculated at the rate at which it is expected the tax will arise in accordance with FRS 19 "Deferred Tax". Deferred taxation balances are not discounted.

**Pensions**

Southern Water Services Limited operates pension schemes which cover the majority of the employees. A valuation of the defined benefits pension schemes is normally conducted by an independent actuary every three years. In accordance with Statement of Standard Accounting Practice (SSAP) 24, the regular cost of providing pensions and related benefits and any variations from regular cost arising from the actuarial valuations are charged to the profit and loss account over the expected remaining service lives of current employees following consultations with the actuary. Any difference between the charge to the profit and loss account and the actual contributions paid to the pension schemes is included as an asset or liability in the balance sheet.

**Financial instruments**

Derivative transactions include interest rate and currency swaps that are only used for non trading purposes. These derivatives are entered into for the purpose of matching or eliminating risk from potential movements in interest and currency rates associated with the long term borrowing requirements of the Group (see Note 18). All non trading derivatives are accounted for on an accruals basis. Provisions are made for losses, if appropriate, in the event that it is expected that any portion of a financial instrument will not be a hedge of the long term borrowing requirements of the Group.

**Capital instruments**

Issue costs of capital instruments have been amortised over the life of the financial instrument to which they relate. Interest rate swap payments on the hedging of the loans are paid, and expensed through the profit and loss account, in the year in which they occur.

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**NOTES TO THE CONSOLIDATED ACCOUNTS FOR THE PERIOD ENDED  
31 MARCH 2004**

**2 Comparative Information**

There is no comparative information as the company was incorporated on the 4 December 2002 and these are the first consolidated accounts of the Group.

**3 Segmental Analysis**

The directors believe that the whole of Southern Water Capital Limited's activities constitute a single class of business. The Group's turnover is generated wholly from within the UK.

**4 Classification of costs**

Turnover represents the income receivable for providing water supply and wastewater services and is generated wholly in the United Kingdom.

Cost of sales reflects the direct costs of providing water supply and wastewater services. Administrative expenses comprise the indirect costs of the business. Other operating income relates to rents receivable.

**5 Profit on ordinary activities before taxation**

Profit on ordinary activities before taxation is stated after charging/(crediting):	<b>2004 £m</b>
Staff costs (note 7a)	41.8
Depreciation on	
- owned assets	101.1
- assets held under finance leases	0.4
	<u>101.5</u>
Rentals under operating leases-other	4.4
Research and development expenditure	1.5
Release of grants and contributions (note 19)	(1.7)
Auditors' remuneration for audit work	0.2
Auditors' remuneration for non-audit services to the group	0.1

Auditors' remuneration for non-audit services of £1.4m has been capitalised as part of the debt issue costs, in accordance with FRS 4, which have been offset against the loans (notes 15 and 16)

SOUTHERN WATER CAPITAL LIMITED  
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**NOTES TO THE CONSOLIDATED ACCOUNTS FOR THE PERIOD ENDED  
MARCH 2004**

**6 Profit of Parent Company**

The company has not presented its own profit and loss account as permitted by section 230 of the Companies Act 1985. The profit for the financial period dealt with in the financial statements of the parent company is £3.9m.

**7 Employee information**

	<b>2004 £m</b>
<b>(a) Employee costs (including directors' emoluments):</b>	
Wages and salaries	47.6
Social security costs	3.9
Pension costs	<u>4.8</u>
 Total employee costs	 56.3
 Less: charged as capital expenditure	 <u>(14.5)</u>
 Charged to the profit and loss account	 <u>41.8</u>

	<b>2004 No.</b>
<b>(b) Average number of persons employed</b>	
Operations	1,177
Project Delivery	66
Customer Services	516
Corporate Centre	<u>336</u>
	<u>2,095</u>

This is the average for the Group from the date of acquisition of Southern water Investments Limited to the 31 March 2004.

SOUTHERN WATER CAPITAL LIMITED  
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**NOTES TO THE CONSOLIDATED ACCOUNTS FOR THE PERIOD ENDED  
31 MARCH 2004**

**8 Net interest and similar charges**

	2004 £m
<b>Interest payable</b>	
Interest payable on bank loans and overdraft	0.7
Interest payable on other loans	117.5
Interest rate swap payments	21.1
Indexation	8.7
Interest on pension fund deficit	3.0
Amortisation of issue costs	7.6
Preference share appropriation	2.9
Amortisation of bond premium	(7.2)
Interest on preference shares	10.7
Total interest payable	<u>165.0</u>
<b>Interest receivable</b>	
Other interest receivable	5.8
	<u>5.8</u>
<b>Net interest charge</b>	<u>159.2</u>

SOUTHERN WATER CAPITAL LIMITED  
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**NOTES TO THE CONSOLIDATED ACCOUNTS FOR THE PERIOD ENDED  
31 MARCH 2004**

**9 Tax on profit on ordinary activities**

	<b>2004 £m</b>
Current tax:	
UK corporation tax on profits of the period	-
Deferred tax:	
Origination and reversal of timing differences	8.3
Total deferred tax	8.3
Total tax on profit on ordinary activities	8.3

The rate of current tax charge on profit on ordinary activities varied from the standard rate of corporation tax due to the following factors:

	<b>2004 £m</b>
Current tax:	
UK corporation tax rate at 30% on profit for the period	1.0
Other differences	0.7
Utilisation of capital losses	(1.2)
Permanent differences	7.8
<b>Tax charge on ordinary activities</b>	<b>8.3</b>
Effect of deferred tax	(8.3)
<b>Current tax charge for period</b>	<b>-</b>

SOUTHERN WATER CAPITAL LIMITED  
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**NOTES TO THE CONSOLIDATED ACCOUNTS FOR THE PERIOD ENDED  
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**10 Fixed assets and capital commitments**

The Group tangible assets are shown below, the Company has no tangible assets.

(a) Group tangible assets

	Freehold land & buildings	Plant & Machinery	Infra- structure assets	Assets in the course of const- ruction	Other	Total
	£m	£m	£m	£m	£m	£m
<b>Cost:</b>						
Acquired at 7 May 2003	751.5	614.0	1,117.3	310.6	129.6	2,923.0
Additions	37.8	67.1	49.4	-	23.2	177.5
Transfers	32.6	24.5	12.5	(67.1)	(2.5)	-
Grants & contributions			(6.1)			(6.1)
Disposals	(1.0)	(0.9)	(1.2)	-	(10.9)	(14.0)
<b>At 31 March 2004</b>	<b>820.9</b>	<b>704.7</b>	<b>1,171.9</b>	<b>243.5</b>	<b>139.4</b>	<b>3,080.4</b>
<b>Depreciation:</b>						
On incorporation	-	-	-	-	-	-
Charge for the period	23.9	32.6	24.2	-	20.8	101.5
Disposals	(0.7)	(0.9)	(1.2)	-	(10.9)	(13.7)
<b>At 31 March 2004</b>	<b>23.2</b>	<b>31.7</b>	<b>23.0</b>	<b>-</b>	<b>9.9</b>	<b>87.8</b>
<b>Net book value:</b>						
<b>At 31 March 2004</b>	<b>797.7</b>	<b>673.0</b>	<b>1,148.9</b>	<b>243.5</b>	<b>129.5</b>	<b>2,992.6</b>

Of the additions to infrastructure assets, the amount spent on infrastructure renewals during the period ended 31 March 2004 was £28.9m. Of the grants and contributions set against infrastructure assets during the period ended 31 March 2004, £3.5m relates to infrastructure renewals.

For the period ended 31 March 2004, the net book value of infrastructure assets is stated after deducting grants and contributions of £132.3m.

Freehold land is stated at a cost of £62.4m at 31 March 2004, and is not depreciated.

Other assets relate primarily to computer equipment and meter reading devices.

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**NOTES TO THE CONSOLIDATED ACCOUNTS FOR THE PERIOD ENDED  
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**10 Fixed assets and capital commitments (continued)**

Assets held under finance leases are capitalised and included in plant and machinery:

	<b>Group 2004 £m</b>
Cost	11.7
Aggregate depreciation	<u>(7.5)</u>
Net book amount	<u>4.2</u>

**(b) Group Capital Commitments**

**2004  
£m**

In respect of contracts placed

105.7

The company has no capital commitments

**11 Fixed asset investments**

	<b>Group 2004 £m</b>	<b>Company 2004 £m</b>
Southern Water Investments limited	-	40.1
Other External Investments (see below)	7.0	-
	<u>7.0</u>	<u>40.1</u>

Other Group External Investments are stated below.

Company	Class of share capital	Proportion of shares held	Activity
Folkestone & Dover Water Services Ltd	Ordinary	25.1%	Water treatment and supply
	Preference	21.8%	
	Deferred	12.2%	

The undertaking principally operates in its country of incorporation. The investment is held by a subsidiary of Southern Water Capital Limited. Folkestone & Dover Water Services Ltd had retained profits of £0.6m for the year ended 31 March 2004 and net assets of £15.4m at 31 March 2004.

SOUTHERN WATER CAPITAL LIMITED  
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**NOTES TO THE CONSOLIDATED ACCOUNTS FOR THE PERIOD ENDED**

**11 Fixed asset investments(continued)**

The Company acquired on 7 May 2003 8,010,000 Ordinary Shares of £1 of Southern Water Investments Limited (being 80.1% of its issued capital), a company incorporated in the United Kingdom. Southern Water Investments Limited itself owns the entire issued capital of Southern Water Services Group Limited and Southern Water NR Holdings Limited.

**12 Acquisition of Southern Water Investments Limited**

Southern Water Capital Limited made one acquisition during the period, Southern Water Investments Limited and its subsidiaries, for a cash payment of £40.1 million.

From 1 April 2003 to 7 May 2003, Southern Water Investments Group had turnover of £47.5 million, operating profit of £20.8 million, profit before taxation of £12.2 million.

The net assets acquired by Southern Water Capital Limited on 7 May 2003 (the date of acquisition) are shown below:

	<b>Book value</b>	<b>Adjustments</b>	<b>Fair value</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>
Fixed assets	2671.6	258.4	2,930.0
Stock	1.7		1.7
Debtors	201.2		201.2
Cash	412.3		412.3
Creditors	(2,849.7)	(299.7)	(3,149.4)
Provisions	(371.3)	66.7	(304.6)
Borrowings	(41.1)	-	(41.1)
<b>Net assets / (liabilities) acquired</b>	<b>24.7</b>	<b>25.4</b>	<b>50.1</b>
80.1% of assets acquired			40.1
Goodwill			-
<b>Consideration</b>			<b>40.1</b>
<b>Consideration satisfied by:</b>			
Cash			<b>40.1</b>

The fair value adjustment to tangible fixed assets was calculated principally on the Regulatory Capital Value with further adjustments for the estimated open market value of operational and non operational assets. Financial instruments were marked to market as of the date of acquisition.

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**12 Acquisition of Southern Water Investments Limited (continued)**

The preference shares held by the previous owner of the company acquired, and which were issued immediately prior to acquisition, include a requirement to pay dividends for the company outperformance. Outperformance is the difference between Southern Water Services Limited's audited 'profit before interest and taxation' and the targeted 'profit before interest and taxation' as determined by OFWAT in the periodic review. As it is not currently considered to be sufficiently certain that Southern Water Services Limited will exceed that performance criteria, no provision has been made for any such payments and this is not currently recognised as part of the consideration for the acquisition.

No provision has been made for potential deferred tax liability on fair value adjustments to the fixed assets recognised. Such tax would only become payable if a contract was entered into to sell the related assets. The total amount unprovided for is £77.5m. At present it is not envisaged that any such tax will become payable in the foreseeable future.

**13 Stocks**

	<b>Group 2004 £m</b>
Raw materials	1.2
Work in progress	0.2
	<hr/> <b>1.4</b> <hr/>

The Company does not hold any stock.

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**14 Debtors: amounts falling due within one year**

	<b>Group 2004 £m</b>	<b>Company 2004 £m</b>
Trade debtors	59.0	-
Unbilled income	35.9	-
Amounts owed by group undertakings	-	3.9
Prepayments	2.0	-
Other debtors	11.7	-
	<u>108.6</u>	<u>3.9</u>

**15 Creditors: amounts falling due within one year**

	<b>Group 2004 £m</b>	<b>Company 2004 £m</b>
Bank overdraft	2.5	-
Trade creditors	18.9	-
Capital creditors and capital accruals	90.0	-
Corporation tax	7.3	-
Other taxation and social security	1.5	-
Other accruals and deferred revenue	67.3	0.1
Bond premium deferred	9.3	-
Debt issue costs	(2.5)	-
Dividends payable to minority interest	1.0	-
	<u>195.3</u>	<u>0.1</u>

**16 Creditors: amounts falling due after one year**

	<b>Group 2004 £m</b>	<b>Company 2004 £m</b>
Long term borrowings	2,429.4	-
Debt issue costs	(49.5)	-
Bond premium deferred	204.2	-
Pension deficit (note 23)	29.9	-
	<u>2,614.0</u>	<u>-</u>

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**NOTES TO THE CONSOLIDATED ACCOUNTS FOR THE PERIOD ENDED  
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**16 Creditors: amounts falling due after one year (continued)**

	2004 £m
<b>Repayments fall due as follows:</b>	
Between two and five years	300.0
After five years not by instalments	<u>2,129.4</u>
	<u>2,429.4</u>

An analysis of the external loans is shown below: -

Loans	Group 2004 £m
Class A £350m 6.192% fixed rate 2029	350.0
Class A £150m 3.706% index linked 2034	152.6
Class A £35m 3.706% index linked 2034	35.6
Class A \$483m USD LIBOR plus 0.40% floating rate 2007	300.0
- (i)	
Class A £350m 6.640% fixed rate 2026	350.0
Class A £150m 3.816% index linked 2023	152.9
Class A £120m LIBOR plus 1.18% floating rate 2013 - (ii)	120.0
Class B £250m 7.869% fixed rate 2038 - (iii)	250.0
Artesian £165m 4.076% index linked 2033	167.6
Senior mezzanine £127.2m 11.96% fixed rate 2038 - (iv)	127.2
Junior mezzanine £106m 16.0% fixed rate 2038	106.0
Debt issue costs	(49.5)
Premium on issue	204.2
Class A1 Preference shares -(v)	150.0
Class B Preference shares -(v)	110.0
Class A2 Preference shares-(v & vi)	57.5
	<u>2,584.1</u>

Floating interest rates have been hedged to fixed and US dollar currency have been hedged to sterling.

Notes :

- (i) The class A \$483m loan has been hedged to a £300m loan with interest at sterling LIBOR plus 0.43% this loan is then hedged to a fixed rate of 6.175%.
- (ii) The interest rate on the class A £120m is hedged to a fixed rate of 6.925% until March 2009 when it reverts to LIBOR plus 2.95%.
- (iii) The interest rate on the class B £250m is fixed at 7.869% until March 2014 when it steps up to LIBOR plus 4.75%.
- (iv) The interest rate on the senior mezzanine £125m loan is fixed at 11.96% until March 2022 when it reverts to LIBOR plus 6.25%. For the remaining senior mezzanine loan of £2.2m the interest rate is LIBOR plus 6.25%.

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**NOTES TO THE CONSOLIDATED ACCOUNTS FOR THE YEAR ENDED 31 MARCH**

**16 Creditors: amounts falling due after one year (continued)**

Notes (continued):

These loans are guaranteed and secured pursuant to a guarantee and security agreement (the Security Agreement). The agreement is over the entire property, assets, rights and undertaking of each of Southern Water Services Limited, Southern Water Services (Finance) Limited (formerly First Aqua (JVCo) Limited) SWS Holdings Limited, and SWS Group Holdings Limited. In the case of Southern Water Services Limited, this is to the extent permitted by the Water Industry Act 1991 and Licence.

The preference shares issued by subsidiaries have been classified as loans in the consolidated financial statements as stated in FRS 4, since the Group taken as a whole has an obligation to transfer economic benefits in connection with the shares

(v) The Class A1 and B shares preference shares, which do not carry voting rights, were issued on the 23 July 2003, and are redeemable at their nominal value plus the share premium paid, on 31 March 2038. Class A1 and B shares were issued at £1,000 per share and the amounts received totalled £260.0m for both classes of shares. Class A2 were issued for £1.00 per share on the 7 May 2003 and the amount received totalled £150,000. Shareholders are entitled to receive dividends annually as follows: -

Class A1

- £40 per share

Class A2

- the base value dividend plus an amount for company outperformance. The base value is £nil per share increasing by £15 every five years. (Outperformance is the difference between Southern Water Services Limited's audited 'profit before interest and taxation' and the targeted 'profit before interest and taxation' as determined by OFWAT in the periodic review).

Class B

- £70 per share

These dividends are payable on the 31 March and 30 September each year. On winding up the preference shareholders rank above ordinary shareholders with the preference shareholders being paid in order of Class A1, Class A2 then Class B.

(vi) The class A2 preference shares have been included in the balance sheet at their fair value on acquisition at the 7 May 2003. The valuation is based on the present value of the total payments over the life of the shares including any unpaid finance costs. The finance costs have been charged to the profit and loss account at a constant rate on the carrying value of the instrument.

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**NOTES TO THE CONSOLIDATED ACCOUNTS FOR THE PERIOD ENDED 31 MARCH 2004**

**16 Creditors: amounts falling due after one year (continued)**

Notes (continued):

Debt issue costs represent issue fees which are being amortised over the weighted-average life of the loan advances noted above. As at 31 March 2004 debt issue costs amounted to £52.0m of which £2.5 m represents the short-term amount which is disclosed separately in note 15.

**17 Provision for liabilities and charges**

	<b>Group 2004 £m</b>
<b>(a) Environmental obligations</b>	
Provision brought forward	-
Provision acquired at 7 May 2003	4.0
Utilised in period	<u>(0.1)</u>
Provision at 31 March 2004	<u>3.9</u>
<b>(b) Deferred taxation</b>	
Accelerated capital allowances	383.4
Other timing differences	<u>(74.5)</u>
<b>Deferred taxation</b>	<b>308.9</b>
<b>Total</b>	<u><b>312.8</b></u>

The environmental provision relates to costs for the decommissioning of abandoned sites. No reimbursement is expected. As the period over which the provision will be utilised cannot be determined the provision is not discounted.

	<b>Group 2004 £m</b>
<b>Movement in deferred tax provision:</b>	
Deferred tax provision brought forward	-
Deferred tax provision acquired at 7 May	300.6
Deferred tax charge in Profit and Loss Account	8.3
<b>Deferred tax provided at 31 March</b>	<u><b>308.9</b></u>

The Company has no provisions for liabilities and charges.

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**NOTES TO THE CONSOLIDATED ACCOUNTS FOR THE PERIOD ENDED 31 MARCH 2004**

**18 Financial Instruments**

Derivative activity is undertaken by a subsidiary in the Group, Southern Water Services (Finance) Limited (SWS(F)) as determined by the Board, which considers the overall risk profile of the Group and enters into derivatives to mitigate or hedge any risks identified, as appropriate. No derivatives are undertaken for trading purposes, or to benefit from price fluctuations.

The SWS(F) business consists of lending to other group Companies and raising external finance. In the opinion of the Directors, the fair values of the financial assets and liabilities of the Group (apart from the specific financing loans and hedging instruments shown in the fair value table below) are not materially different from the book values and are not separately disclosed.

All fair values are based on arms length transactions in normal market conditions. Where available market values have been used to determine fair values.

The fair value of the Group's long term borrowings has been estimated based on quoted market prices for the same or similar debt where possible. Where prices did not exist, the fair value has been estimated based the calculations of the present value of future cash flows using the appropriate discount rates in effect at the balance sheet dates .

For foreign currency and interest rate swap agreements the fair value has been estimated based on market valuations at the balance sheet dates.

The Group has no material unhedged monetary assets and liabilities denominated in a currency different from the local currency of the particular operation.

The table below describes the main activities and risks which lead to the use of derivatives.

<b>Activity</b>	<b>Risk</b>	<b>Type of hedge in place</b>
Floating rate borrowing / financing	Increased interest expense due to increases in interest rates	Interest rate swaps which fix the amount of interest payable.
Currency rate borrowing / financing	Increased currency losses due to increases in exchange rates	Currency rate swaps which fix the exchange rates.

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**NOTES TO THE CONSOLIDATED ACCOUNTS FOR THE PERIOD ENDED 31 MARCH 2004**

**18 Financial Instruments (continued)**

On 23 July 2003, the Group carried out a refinancing transaction and entered in to a series of derivative transactions for the purpose of hedging risk associated with the long term borrowing requirements of the Southern Water Capital Group.

For the purposes of the notes below, short term debtors and creditors have been excluded.

**Interest Rate Risk profile of financial liabilities**

Currency	Total £m	Index Linked financial liabilities £m	Fixed rate financial liabilities £m	Non equity fixed rate preference shares £m
GBP	2,429.4	508.7	1,603.2	317.5
<b>At 31 March 2004</b>	<b>2,429.4</b>	<b>508.7</b>	<b>1,603.2</b>	<b>317.5</b>

The balance above includes the debt raised in external finance markets (described further in note 16).

Within the fixed rate financial liabilities of £1,603.2m, are loans of £670.0m that have a floating rate which have been fixed through the use of interest rate swaps.

**Fixed rate financial liabilities**

Currency	Weighted average interest rate %	Weighted average time for which rate is fixed Years
GBP	6.6	24.9
<b>31 March 2004</b>	<b>6.6</b>	<b>24.9</b>

The Group held the following financial assets, as part of the financing arrangements at 31 March 2004.

	<b>31 March 2004</b>
	<b>£m</b>
GBP Cash	<b>97.2</b>
GBP Restricted cash	<b>1.8</b>
	<b>99.0</b>

Restricted cash of £1.8m is held in a designated bank account in order to meet the interest requirements on the loan finance.

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The above financial assets attract interest at floating rates.

**NOTES TO THE CONSOLIDATED ACCOUNTS FOR THE PERIOD ENDED  
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**18 Financial Instruments (continued)**

**Fair values of financial assets and financial liabilities**

The following table provides a comparison by category of the carrying amounts and the fair values of the Group's financial assets and financial liabilities at 31 March 2004. Fair value is the amount at which a financial instrument could be exchanged in an arm's length transaction between informed and willing parties. Where available, market values have been used to determine fair values.

	<b>Book value 2004</b>	<b>Fair value 2004</b>
	<b>£m</b>	<b>£m</b>
Long term borrowings	(2,429.4)	(2,647.7)
Restricted Cash	1.8	1.8
Cash at Bank and in Hand	97.2	97.2
Overdraft (note 15)	(2.5)	(2.5)
<b>Derivative financial instruments held to manage interest rate and currency profile</b>		
Interest Rate Swaps	-	(20.9)
Currency Rate Swaps	-	(37.5)

**HEDGES**

The table below shows the extent to which the Group has off-balance sheet (unrecognised) and on-balance sheet (deferred) gains and losses in respect of financial instruments used as hedges at the beginning and end of the period. It also shows the amount of such gains and losses which have been included in the profit and loss account for the period and those gains and losses which are expected to be included in next year's or later profit and loss accounts.

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**18 Financial Instruments (continued)**

All the gains and losses on the hedging instruments are expected to be matched by losses and gains on the hedged transactions or positions.

	Unrecognised		Deferred	
	Gains £m	Losses £m	Gains £m	Losses £m
Gains and (losses) on hedges at 7 May 2003	-	-	-	(222.3)
Amount realised in the current period	-	-	-	222.3
Gains and (losses) not realized 2004	-	(58.4)	-	-
<b>Gains and (losses) on hedges at 31 March 2004</b>	-	(58.4)	-	-
Of which:				
Gains and losses expected to be recognised within 2005 income		-		-
Gains and losses expected to be recognised within 2006 income or later		(58.4)		-

In 2002 derivatives were put into place to hedge the anticipated bond issue. The bonds were issued at the hedged rate on the 23 July 2003. The premium proceeds on the bond issue were used to finance the payment of the swap break costs on the same date.

The losses of £58.4m for the current period relate to instruments which will continue to hedge the Group's exposure to movements in interest and currency rates.

**19 Grants and contributions**

	Group £m
At 7 May 2003	41.1
Receivable in period	3.1
Released to profit and loss account	(1.7)
<b>At 31 March 2004</b>	<b>42.5</b>

Grants and Contributions relate to non-infrastructure assets.

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**NOTES TO THE CONSOLIDATED ACCOUNTS FOR THE PERIOD ENDED  
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**20 Share capital**

	<b>Group and Company 2004 £m</b>
Authorised	
5,000,000 ordinary A shares of £1 each	5.0
195,000,000 ordinary B shares of £1 each	195.0
	<b>200.0</b>
Allotted, called up and fully paid	
5,000,000 ordinary A shares of £1 each	5.0
35,050,000 ordinary B shares of £1 each	35.1
	<b>40.1</b>

The share capital of the Company was increased from £100 to £200,000,000 by a written resolution dated 6 May 2003 by the creation of 99,999,900 ordinary shares of £1 each and 100,000,000 redeemable shares of £1 each. By written resolution dated 14 October 2003 the share capital was redesignated into 5,000,000 A shares of £1 each and 195,000,000 B shares of £1 each. Class A shares only carry voting rights, in all respects the A and B shares rank pari passu as regards rights to income and capital.

On 7 May 2003 5,000,000 ordinary A shares were issued at £1 per share and £35,050,000 ordinary B shares were issued at £1 per share, the amounts received totalled £40.1m for both classes of shares.

**21 Reconciliation of movement in shareholder's funds**

<b>Group</b>	Called up share capital £m	Profit and loss account £m	Total £m
On Incorporation	-	-	-
Shares issued	40.1	-	40.1
Loss for the period	-	(5.1)	(5.1)
<b>At 31 March 2004</b>	<b>40.1</b>	<b>(5.1)</b>	<b>35.0</b>

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**NOTES TO THE CONSOLIDATED ACCOUNTS FOR THE PERIOD ENDED  
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**21 Reconciliation of movement in shareholder's funds (continued)**

<b>Company</b>	Called up share capital £m	Profit and loss account £m	Total  £m
On Incorporation	-	-	-
Shares issued	40.1	-	40.1
Profit for the period	-	3.9	3.9
<b>At 31 March 2004</b>	<u><u>40.1</u></u>	<u><u>3.9</u></u>	<u><u>44.0</u></u>

**22 Notes to the cash flow statement**

<b>Cash flow from operating activities</b>	<b>2004 £m</b>
<b>Continuing operations</b>	
Operating profit and profit on ordinary activities before interest and taxation.	158.6
Decrease in environmental provision	(0.1)
Decrease in pension deficit	(0.2)
Depreciation charge	101.5
Decrease in stocks	0.3
Decrease in debtors	92.6
Decrease in creditors	<u>(123.8)</u>
<b>Total net cash inflow from operating activities</b>	<u><u>228.9</u></u>

**Analysis of Net Debt:**

	On Incorporation £m	On Acquisition (excluding cash) £m	Cash flows £m	Other non-cash £m	31 Mar 04 £m
Cash	-	-	99.0	-	99.0
Bank overdraft	-	-	(2.5)	-	(2.5)
		-	96.5	-	96.5
Debt due within one year	-	(2,068.8)	2,074.7	(12.7)	(6.8)
Debt due after one year	-	(54.6)	(2,363.2)	(166.3)	(2,584.1)
<b>Net Debt</b>	<u><u>-</u></u>	<u><u>(2,123.4)</u></u>	<u><u>(192.0)</u></u>	<u><u>(179.0)</u></u>	<u><u>(2,494.4)</u></u>

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**NOTES TO THE CONSOLIDATED ACCOUNTS FOR THE PERIOD ENDED  
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**23 Pensions**

The Group accounted for pension costs during the period under SSAP 24, but has also made the detailed disclosures required under the transitional arrangements under FRS 17. These disclosures show a net FRS 17 deficit (after deferred tax) of £104.4 million. The deficit has arisen mainly as a result of turbulence in the stock market and low interest rates.

**Pension schemes operated**

At 7 May 2003 the Group principally operated three schemes. In November 2003 the Group ceased their involvement with the Scottish Power plc pension scheme. Details of the schemes are shown below:

1. Southern Water Pension Scheme (SWPS), a funded defined benefit scheme which was closed to new members in 31 December 1998 but re-opened in July 2003. This scheme has nine trustee directors.
2. Southern Water Executive Pension Scheme (SWEPS), which is a funded defined benefit scheme. This scheme has four trustee directors.

Both of the above schemes are operated by Southern Water Services Limited. The assets of the schemes are held separately from those of the Group. State Street Bank and Trust Company acts as custodian for the defined benefit schemes and asset management is delegated to external fund managers.

3. Scottish Power plc pension scheme, which is a defined benefit scheme was closed to Southern Water employees in November 2003, when they were transferred back to SWPS. This was administered by Scottish Power plc, however, the Group made contributions on behalf of certain of its employees.

Members of both remaining schemes receive an annual statement of their accrued benefits.

The latest actuarial valuations of the Southern Water Pension Scheme (SWPS) and Southern Water Services Executive Pension (SWEPS) schemes were carried out as at 31 March 2001 using the projected unit method. The assumptions which have the most significant effect on the results of the valuation are those relating to the rate of return on investments, the rate of future pensionable salary increases and the level of pension increases.

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**NOTES TO THE CONSOLIDATED ACCOUNTS FOR THE PERIOD ENDED  
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**23 Pensions (continued)**

The principal assumptions made by the actuary in the valuation were as follows:

	<b>2001 SWPS % pa</b>	<b>2001 SWEPS % pa</b>
Return on investments	6.2	5.3
Salary growth	4.5	4.5
Pension increases on the excess over guaranteed minimum pensions	2.5	2.5

The assets of the scheme had a market value of £296.0m for the SWPS and £22.0m for the SWEPS at 31 March 2001. This was sufficient to cover 107% and 102% of the benefits of SWPS and SWEPS respectively, that had accrued to members at that date, after allowing for expected future increases in earnings. The funding level is likely to have deteriorated since the March 2001 actuarial valuations due to adverse stock market movements. The deficit under SSAP 24 at 7 May 2003 has been recognised as part of the fair value exercise performed on acquisition

**Regular pension costs under SSAP 24**

1. On acquisition of the Southern Water Services Investments Limited group, the fair value of the deficit in the pension schemes under SSAP24 was recognised, net of the related deferred tax asset. Consequently the balance sheet at 31 March 2004 includes the deficit on acquisition of £30.1m, being the opening deficit, plus interest on the deficit of £3.0m and a payment of £3.2m.

Pension costs for the SWPS (including costs transferred from the Scottish Power plc scheme) and SWEPS during the period were £4.3m. The pension cost for the period was greater than the actual contribution paid of £3.8m resulting in an accrual in the balance sheet at 31 March 2004 of £0.5m. The accrual is in relation to the fund deficits arising since acquisition.

2. Pension costs for the employees previously in the Scottish Power plc scheme (now transferred to the SWPS) were £0.5m. The actual contributions for the period were also £0.5m, resulting in no accruals or prepayments being held on the balance sheet.

**FRS 17 - disclosures**

The Group is following the transitional arrangements under FRS 17 and the required disclosures are made below.

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**NOTES TO THE CONSOLIDATED ACCOUNTS FOR THE PERIOD ENDED  
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**23 Pensions (continued)**

**FRS 17 - assumptions, asset, liability and reserves disclosures**

Formal actuarial funding valuations of the two principal defined benefit schemes in the UK were carried out at 31 March 2001 and updated to 31 March 2004 by a qualified independent actuary. The following disclosures are combined for the SWPS and SWEPS. The major assumptions used by the actuary are set out in the table below.

	<b>At 31 March 2004 % pa</b>	<b>At 7 May 2003 % pa</b>
Price inflation	2.9	2.5
Rate of increase in salaries (plus an age-related promotional scale)	4.4	4.0
Rate of increase of pensions in payment	2.9	2.5
Rate of increase for deferred pensions	2.9	2.5
Discount rate	5.6	5.5
Expected return on assets – SWPS	7.3	7.5
Expected return on assets – SWEPS	5.6	5.6

The assets and liabilities in the schemes and the expected rates of return at 31 March 2004 and 7 May 2003 were:

	<b>Rate of return 31 March 2004 %</b>	<b>Rate of return 7 May 2003 %</b>	<b>Value at 2004 £m</b>	<b>Value at 7 May 2003 £m</b>
Equities	8.4%	8.7%	192.6	173.5
Bonds	4.8%	4.7%	87.9	80.4
Cash	3.9%	4.0%	4.9	-
Total market value of Plan assets			<b>285.4</b>	253.9
Total value of Plan liabilities			<b>(434.6)</b>	(386.0)
Accrued deficit in the Plan			<b>(149.2)</b>	(132.1)
Related deferred tax asset			44.8	39.6
Net pension liability			<b>(104.4)</b>	(92.5)

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**NOTES TO THE CONSOLIDATED ACCOUNTS FOR THE PERIOD ENDED  
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**23 Pensions (continued)**

**FRS 17 - assumptions, asset, liability and reserves disclosures**

If FRS 17 had been adopted and therefore the pension liabilities as discussed above were to be recognised, the Group's net assets and profit and loss account after taking account of the effect of both pension schemes would have been as follows:

	<b>2004</b>
	<b>£ m</b>
Shareholder's funds	
As reported (note 21)	<b>35.0</b>
Goodwill arising on acquisition on inclusion of FRS17 deficit	<b>47.6</b>
SSAP 24 deficit in relation to SWPS and SWEPS, net of related deferred tax	<b>29.9</b>
FRS 17 net pension liability as above	<b>(104.4)</b>
As adjusted for FRS 17	<b>8.1</b>

	<b>2004</b>
	<b>£ m</b>
Profit and loss account	
As reported (note 21)	<b>(5.1)</b>
Goodwill arising on acquisition on inclusion of FRS17 deficit	<b>47.6</b>
SSAP 24 deficit as above	<b>29.9</b>
FRS 17 net pension liability as above	<b>(104.4)</b>
As adjusted for FRS 17	<b>(32.0)</b>

**FRS 17 – profit and loss account disclosures**

The following amounts would have been recognised in the profit and loss account for the period to 31 March 2004 under the requirements of FRS17.

**Analysis of amounts charged to operating profit:**

	<b>2004</b>
	<b>£ m</b>
Employer's current service cost	<b>6.6</b>
Employer's past service costs	<b>0.2</b>
Total charged to operating profit	<b>6.8</b>

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**NOTES TO THE CONSOLIDATED ACCOUNTS FOR THE PERIOD ENDED  
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**23 Pensions (continued)**

**Analysis of other amounts credited to the profit and loss account:**

	2004 £ m
(Gain) on settlements	(0.2)
Net gain credited to profit and loss account	<u>(0.2)</u>

**Analysis of the amount charged to other finance income:**

	2004 £ m
Interest on pension scheme liabilities	19.1
Expected return on pension scheme assets	(16.7)
Net charge/ (credit) to other finance income	<u>2.4</u>
<b>Total P&amp;L charge before tax</b>	<u><b>9.0</b></u>

**Analysis of the amounts recognised in STRGL:**

	2004 £ m
Actuarial gain on scheme assets	16.2
Experience loss arising on scheme liabilities	(8.2)
Loss on change of assumptions (financial and demographic)	(20.9)
Total loss recognised in STRGL before	<u></u>
Adjustment for tax	<u>(12.9)</u>

**Analysis of the movement in the schemes' deficits during the period**

	2004 £ m
Deficit in the plan at 7 May 2003	(132.1)
Employers' contributions	7.0
Employers' current service cost	(6.6)
Employers past service cost	(0.2)
Settlement gain	0.2
Acquisitions loss	(2.2)
Other finance charge	(2.4)
Actuarial loss	(12.9)
Deficit in the scheme at end of period	<u>(149.2)</u>

SOUTHERN WATER CAPITAL LIMITED  
(FORMERLY HACKREMCO (NO2023) LIMITED)

**NOTES TO THE CONSOLIDATED ACCOUNTS FOR THE PERIOD ENDED 31  
MARCH 2004**

**23 Pensions (continued)**

Details of experience gains and losses for the period to 31 March 2004 are as follows:

	2004
<b>a. Actuarial (gain)/loss on scheme assets</b>	
Amount (£m)	(16.2)
Percentage of the scheme assets	<u>5.7%</u>
<b>b. Experience loss on scheme liabilities</b>	
Amount (£m)	8.2
Percentage of the present value of the scheme liabilities	<u>1.9%</u>
<b>c. Total actuarial loss recognised in STRGL</b>	
Amount (£m)	12.9
Percentage of the present value of the scheme liabilities	<u>2.9%</u>

SOUTHERN WATER CAPITAL LIMITED  
(FORMERLY HACKREMCO (NO2023) LIMITED)

**NOTES TO THE CONSOLIDATED ACCOUNTS FOR THE PERIOD ENDED 31  
MARCH 2004**

**24 Contingent liabilities**

	<b>Group 2004 £m</b>
Contractors' claims	<u>21.9</u>

Contractors' submit claims to the Group for the estimated final cost of their works. These claims are reviewed by Southern Water, who assess where the liability for the costs rests and the amount that will actually be settled. The expected amount is included within capital creditors and a further sum is identified as a contingent liability, representing a proportion of the difference between the contractor's claim and Southern Water's valuation.

An element of contingent consideration for the acquisition is disclosed in note 12.

**25 Financial commitments**

	<b>Group 2004 £m</b>
Annual commitments under other operating leases:	
Expiring within one year	1.0
Expiring between two and five years	<u>2.8</u>
	<u>3.8</u>

Operating leases are charged to the Profit and Loss Account over the lease term. The Company has no such commitments.

SOUTHERN WATER CAPITAL LIMITED  
(FORMERLY HACKREMCO (NO2023) LIMITED)

**NOTES TO THE CONSOLIDATED ACCOUNTS FOR THE PERIOD ENDED 31  
MARCH 2004**

**26 Directors' emoluments**

	<b>2004 £000</b>
Aggregate emoluments (including benefits in kind)	<u><b>129.5</b></u>

Directors emoluments relate to amounts paid by Southern Water Services Limited for their services to that company.

No payments were made to the directors of Southern Water Capital Limited by the company as they are deemed to be of a non-executive nature.

SOUTHERN WATER CAPITAL LIMITED  
(FORMERLY HACKREMCO (NO2023) LIMITED)

**NOTES TO THE CONSOLIDATED ACCOUNTS FOR THE PERIOD ENDED 31 MARCH 2004**

**27 Related party transactions and ultimate controlling party**

The major shareholders in Southern Water Capital are Royal Bank of Scotland and Perry Capital. Southern Water Capital owns 80.1% of the share capital of Southern Water Investments Limited. The remaining 19.9% is owned by Veolia Water UK plc.

The transactions and balances with the group's related parties, as defined by Financial Reporting Standard 8, and the extent of the transactions with them are summarised below.

	<b>2004</b>
	<b>£m</b>
<b>Costs</b>	
Royal Bank Investments Limited	
– fees in respect of the securitisation transaction	34.2
Veolia Water UK plc	
– fees paid for tax consultancy	0.1
- preference dividends paid	1.1
<b>Creditors</b>	
Ordinary dividend payable to Veolia Water UK plc	1.0
<b>Loans greater than one year</b>	
Loan from Royal Bank Investments Limited (mezzanine debt)	233.2

SOUTHERN WATER CAPITAL LIMITED  
(FORMERLY HACKREMCO (NO2023) LIMITED)

**NOTES TO THE CONSOLIDATED ACCOUNTS FOR THE PERIOD ENDED 31 MARCH 2004**

**28 Principal subsidiaries**

As of 31 March 2004 the Company held 80.1% of the ordinary share capital of Southern Water Investments Limited. Southern Water Investments Limited principal subsidiaries are listed below.

Company	Class of share capital	Proportion of shares held	Activity
Southern Water( NR) Holdings Limited	Ordinary	100%	Non-trading activities
Southern Water( NR) Limited (formerly Aspen 4 Limited)	Ordinary	100%	Non-trading activities
SWS Group Holdings Limited	Ordinary	100%	Non-trading activities
SWS Holdings Limited	Ordinary	100%	Non-trading activities
Southern Water Limited (formerly Southern Water plc)	Ordinary	100%	Intermediate parent company for Southern Water(NR) group
Southern Water Services Limited	Ordinary	100%	Supply of Water and Wastewater Services
Southern Water Services Finance Limited	Ordinary	100%	To raise debt finance
Southern Water Services Group Limited	Ordinary	100%	Non-trading activities
Southern Water Industries Limited	Ordinary	100%	Commercial Services
Southern Water Services Finance plc	Ordinary	100%	Financial Services
Bowsprit Holdings Limited	Ordinary	100%	Property Investment
Monk Rawling Limited	Ordinary	100%	Estate Management
Bowsprit Property Development Limited	Ordinary	100%	Property Development
James Leppard & Sons Limited	Ordinary	100%	Landfill Operator

SOUTHERN WATER CAPITAL LIMITED  
(FORMERLY HACKREMCO (NO2023) LIMITED)

**NOTES TO THE CONSOLIDATED ACCOUNTS FOR THE PERIOD ENDED  
31 MARCH 2004**

**28 Principal subsidiaries (continued)**

Company	Class of share capital	Proportion of shares held	Activity
Taylor Plant & Haulage Limited	Ordinary	100%	Landfill Operator
EcoClear Limited	Ordinary	100%	Dormant
Southern Water Executive Pension Scheme Trustees Limited	Ordinary	100%	Corporate Trustee of Executive Pension Scheme
Southern Water Pension Trustees Limited	Ordinary	100%	Corporate Trustee of Company Pension Scheme

All subsidiaries have been included in Southern Water Capital Limited's consolidated accounts.

**Associate Company**

Coastal Wastewater Consultants Limited	Ordinary	50%	Marine treatment, engineering design and consultancy
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This company has not been consolidated in the financial statements due to immateriality.

SOUTHERN WATER CAPITAL LIMITED  
(FORMERLY HACKREMCO (NO2023) LIMITED)

**INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF SOUTHERN WATER CAPITAL LIMITED**

We have audited the financial statements which comprise the profit and loss account, the balance sheet, cash flow statement and the related notes which have been prepared under the historical cost convention and the accounting policies set out in the accounting policy note.

**Respective responsibilities of directors and auditors**

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the statement of directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards issued by the Auditing Practices Board. This report, including the opinion, has been prepared for and only for the Group's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the Group has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions is not disclosed.

We read the other information contained in the annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information comprises only the directors' report.

**Basis of audit opinion**

We conducted our audit in accordance with auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's circumstances, consistently applied and adequately disclosed.

SOUTHERN WATER CAPITAL LIMITED  
(FORMERLY HACKREMCO (NO2023) LIMITED)

**INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF SOUTHERN  
WATER CAPITAL LIMITED**

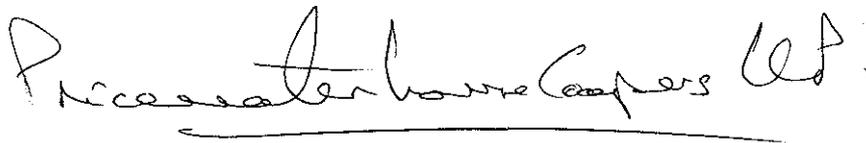
**Basis of audit opinion (continued)**

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

**Opinion**

In our opinion:

- the financial statements give a true and fair view of the state of the affairs of the company and the group at 31 March 2004 and of its loss and cash flows of the Group for the period then ended; and
- the financial statements have been properly prepared in accordance with the Companies Act 1985.



PricewaterhouseCoopers LLP

Chartered Accountants and Registered Auditors  
London,